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Report On Business®

Economic Decline Worsens; PMI Falls to 37.7% While the Price Index Plummets to 49.1%

JANUARY REPORT

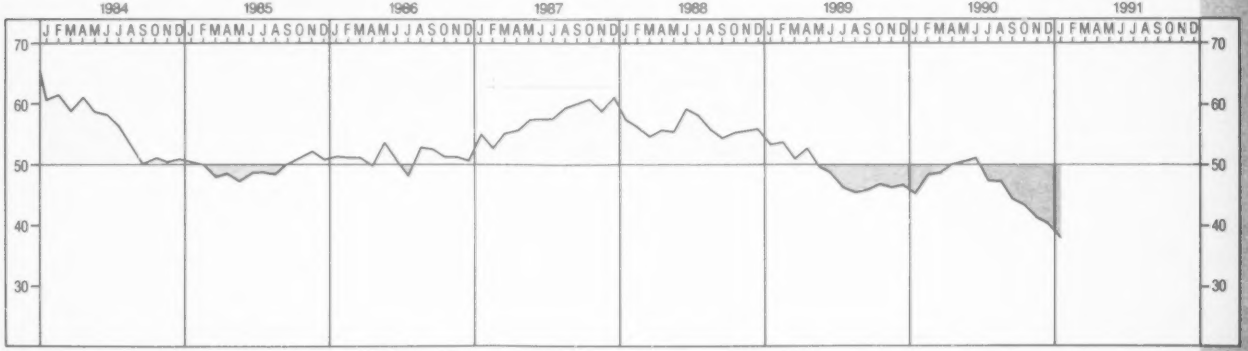
Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of corporate purchasing, Pitney Bowes, Inc.

The U.S. economic decline worsened in January 1991 for the fourth consecutive month, say the nation's purchasing executives in their latest **Report on Business**. The manufacturing sector of the economy registered the eighth consecutive monthly decline. The Production Index declined sharply for the sixth consecutive month and is the lowest since November 1981. The New Orders Index declined further in January for the seventh consecutive month. It is also at the lowest level since November 1981, the fourth month after the previous recession began in July 1981.

The Supplier Deliveries Index declined for the fifth consecutive month, once again reflecting a diminishing demand for products and the relative ease in obtaining them as requested. Inventories declined for the 26th consecutive month, virtually in lock step with declining sales. The Employment Index declined for the 24th consecutive month and is the lowest since December 1982. Prices declined in January after seven consecutive months of increases, confirming purchasers' early November 1990 signal that the Middle East crisis-related inflation peaked in October 1990. New Export Orders continued to grow in January at the strongest rate since July 1990, while Imports declined for the ninth consecutive month at a slightly greater rate than in December 1990.

The **Report** was issued by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee, and director of corporate purchasing at Pitney Bowes, Inc. Said Bretz, "The economy marked the new year by registering a worsening decline in the recession. All indicators confirmed the anemic condition of the economy, except for the continued strength in New Export Orders. The good news is the low level of inventories and the break in inflationary price increases. The sobering reality is that New Orders has yet to bottom, let alone lead the way toward recovery, and until it does, we can expect no improvement in the economic malaise."

PURCHASING MANAGERS' INDEX

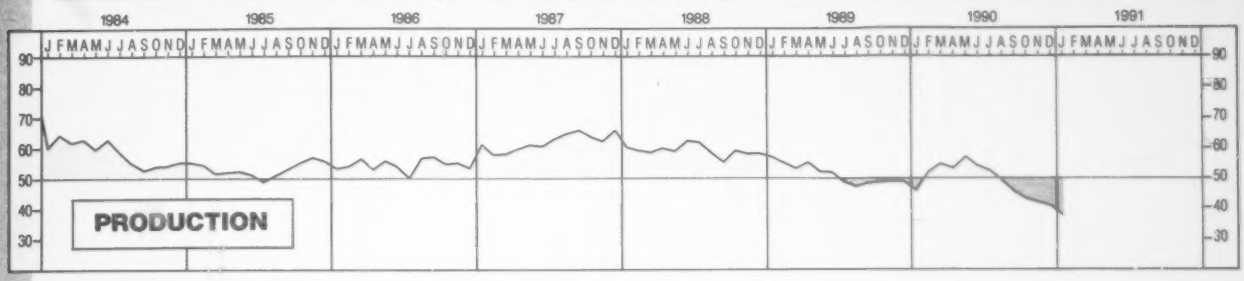


PURCHASING MANAGERS' INDEX (PMI)

January '90	45.5	August '90	47.4
February '90	48.1	September '90	44.9
March '90	49.0	October '90	43.6
April '90	49.4	November '90	41.6
May '90	50.1	December '90	40.5
June '90	49.9	January '91	37.7
July '90	47.6		

The Purchasing Managers' Index (PMI) fell to 37.7% in January, down significantly from 40.5% in December, and is the lowest level since May 1982 (35.5%). Both numbers reflect an update of the seasonal adjustment factors by the U.S. Department of Commerce used to calculate the Purchasing Managers' Index as well as the diffusion indexes for all other indicators included in the January ***Report on Business***. The New Export Orders Index and the Imports Index are an exception from the update because both indexes are not yet seasonally adjusted. A reading below 50 indicates that the manufacturing economy is generally declining; above 50, that it is generally expanding. Bretz added, "The PMI has registered under 44%, indicative of a decline in the entire economy, for four consecutive months. The January PMI of 37.7% is approximately the level the PMI reached in the fifth month (December 1981) after the previous recession."

BUSINESS

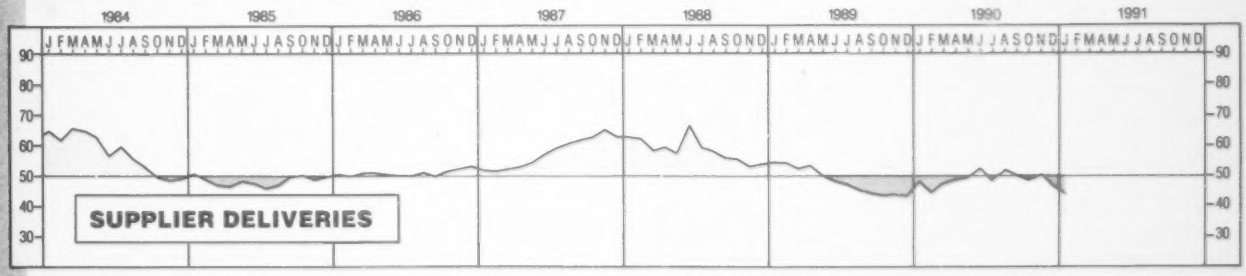


Production weakened in January registering the sixth successively steeper monthly decline. The Production Index dropped to 37.1%, a significant decline from 41.0% in December 1990 and 55.2% in May 1990, which was the highest level in 1990 before the index began falling. There is little chance for improvement in Production until New Orders pick up.

Production	%Better	%Same	%Worse	Net	Index
January 1991	14	47	39	-25	37.1
December 1990	12	53	35	-23	41.0
November 1990	16	49	35	-19	42.3
October 1990	17	52	31	-14	43.6

New Orders declined in January for the seventh consecutive month. The New Orders Index fell to 35.7%, down significantly from 38.5% in December. The 35.7% is the lowest level this index has been since November 1981 (32.8%) which was the fourth month after the previous recession began in July 1981. The economy will continue to weaken until New Orders bottoms and begins to turn upward.

New Orders	%Better	%Same	%Worse	Net	Index
January 1991	15	44	41	-26	35.7
December 1990	15	40	45	-30	38.5
November 1990	18	39	43	-25	40.0
October 1990	19	47	34	-15	43.6



The Supplier Deliveries Index fell to 43.3% in January, down from 46.8% last month. This drop in the index reflects the end of the period when prices were increasing rapidly and purchasers were requesting earlier deliveries to defer the increase as long as possible. Now, with price increases actually declining, as well as demand for products, suppliers' ability to deliver on time has improved significantly.

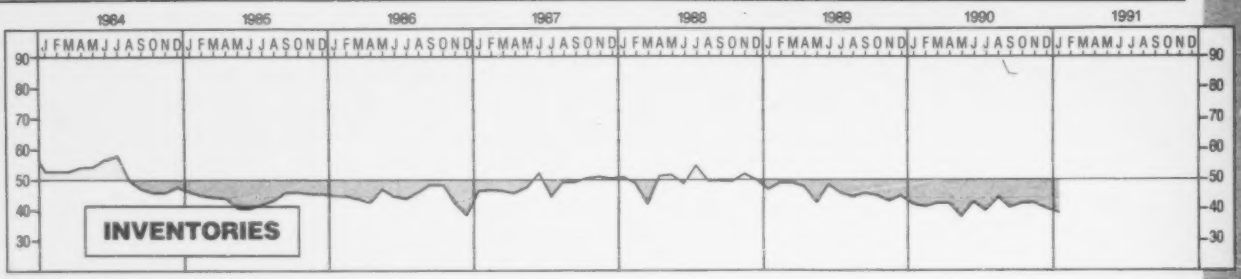
Supplier Deliveries	%Slower	%Same	%Faster	Net	Index
January 1991	4	80	16	-12	43.3
December 1990	5	83	12	- 7	46.8
November 1990	9	80	11	- 2	49.9
October 1990	9	79	12	- 3	48.7

IN SHORT SUPPLY

Acetate Filter — 4th consecutive month; **Bearings** —30th consecutive month; **Castings** — 5th consecutive month; **Caustic Soda/Soda Ash** — 44th consecutive month (used heavily in paper making, petroleum refining, and soap making); **Methyl Ethyl Ketone (MEK)** — 5th consecutive month (used heavily as a chemical solvent in surface coatings, and making resins); **Propylene Oxide** — 3rd consecutive month (used heavily in preparation of polyethers to form polyurethanes, propylene and dipropylene glycols, lubricants, surfactants, and oil demulsifiers); **Textile Dyes** — 3rd consecutive month; **Clay-coated Newsback Board** — Used in packaging.

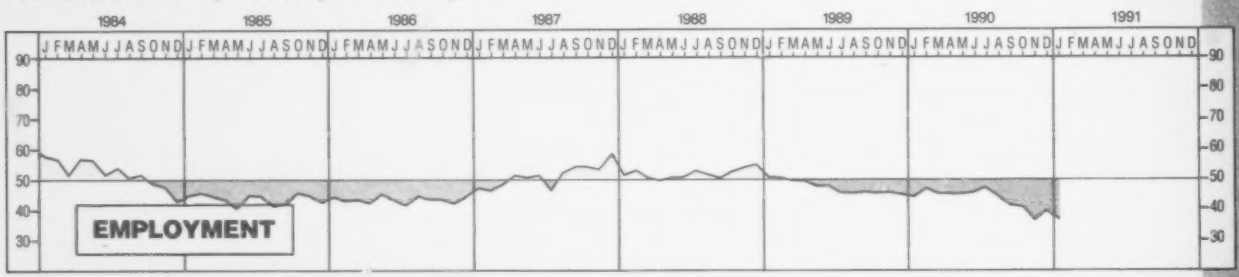
UP IN PRICE

Steel — Some reports of price decreases; **Acetic Acid** — Used in making various acetates, plastics and rubber tanning, a preservative in foods and a solvent for gums, resins, and volatile oils; **Caustic Soda/Soda Ash** — 50th consecutive month, primarily as a consequence of lower demand for coproduced chlorine by paper makers; **Methyl Ethyl Ketone (MEK)** — 5th consecutive month; **Sulfur** — 5th consecutive month (used heavily in making sulfuric acid, matches, gunpowder, in bleaching wood pulp, and a variety of industrial uses); **Pigments** — Used heavily in imparting color to coating materials such as paints, inks, plastics, and rubber; **Textile Dyes** — 2nd consecutive month; **Cotton Fabric; Vinyl Fabric; Plastic Resins** — 5th consecutive month, (used in making plastic products); **Plastic Products** — 2nd consecutive month; **Plastic Shrink Wrap** — Used heavily in packaging consumer and industrial products; **Polyethylene** — 5th consecutive month (used heavily in making plastic packaging materials, kitchenware, tank and pipe linings, paper coatings, and textile stiffeners); **Rubber and Rubber Products; Urethane** — Used as an alternative to rubber in selected applications in aircraft and office equipment; **Adhesives** —3rd consecutive month; **Cigarette Paper; Glass; Silica Sands** — Used heavily in making glass; **Silicon, Substrate and Dust** —Used heavily in making transistors, diodes, and semiconductors; **Petrochemicals** — 5th consecutive month.



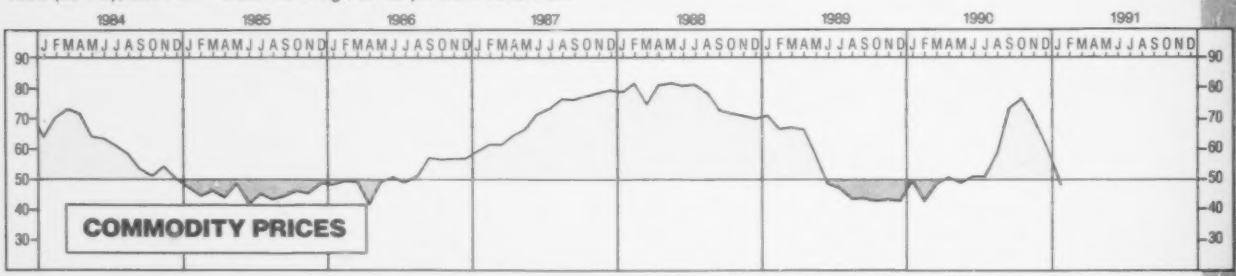
Inventories declined in January for the 26th consecutive month. The Inventories Index fell to 38.6%, down from 39.7% in December 1990 and is the lowest level since December 1986 (38.4%). Obviously, purchasers are working to reduce their inventories by at least the measure of their decline in sales, and avoiding what would otherwise be an excessive inventory and a delay of the recovery.

Inventories	%Higher	%Same	%Lower	Net	Index
January 1991	15	47	38	–23	38.6
December 1990	15	47	38	–23	39.7
November 1990	12	54	34	–22	41.3
October 1990	14	53	33	–19	41.5



Employment continued to decline in January for the 24th consecutive month. The Employment Index fell to 36.5%, down from 38.7% last month, and a reflection of the increased number of layoffs and plant closings along with hiring freezes, in anticipation of declining sales and production. The 36.5% index in January is the lowest since December 1982 (36.3%), one month from the trough of the previous recession.

Employment	%Higher	%Same	%Lower	Net	Index
January 1991	7	57	36	–29	36.5
December 1990	7	61	32	–25	38.7
November 1990	5	62	33	–28	37.2
October 1990	9	63	28	–19	40.7



Price increases declined slightly to 49.1%, a sharp drop from 61.2% in December. Almost all of the previous seven months of price increases were caused not by shortages nor increases in demand, but on speculation based on the fear of supply interruptions. These fears appeared to diminish causing price increases to peak in October. With the economy continuing to weaken, overall prices will also continue to weaken.

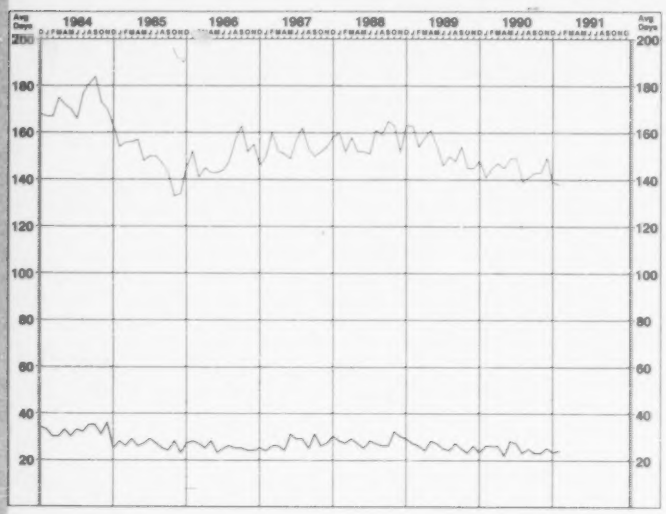
Prices	%Higher	%Same	%Lower	Net	Index
January 1991	25	54	21	+ 4	49.1
December 1990	32	55	13	+19	61.2
November 1990	44	46	10	+34	69.5
October 1990	56	38	6	+50	77.3

DOWN IN PRICE

Aluminum —3rd consecutive month; **Brass** —3rd consecutive month; **Copper** — 3rd consecutive month; **Nickel** —3rd consecutive month (used heavily in making stainless steel, plating metals, and batteries); **Steel Scrap** — 3rd consecutive month; **Zinc** — 6th consecutive month; **Stainless Steel; Steel Plates; Bearings** — 3rd consecutive month, after being reported up in price in August 1990 for the 23rd time in 26 months; **Uncoated Offset Paper** — Used heavily in printing; **Corrugated Shipping Containers** — 11th time in 12 months; **Leather; Lumber; Glycerine** — Used in various ways especially as a sweetener in confectioneries, cosmetics, soaps, and tobacco; **Hydrogen Peroxide** — Increasing supply exceeding demand because of switching from chlorine use by paper makers to avoid dioxins; used as a bleaching agent and, in solution, as a topical cleansing agent and antiseptic; **Phenol** — 2nd consecutive month (used heavily in making phenolic resins); **Polypropylene** — Used heavily in making plastic fabric, yarns, carpets, and packaging materials; **Solvents; Sulfuric Acid** — Used heavily in making fertilizers, dyes, adhesives, and other acids; **Styrene** —2nd consecutive month (used chiefly in making polystyrene, synthetic rubber, latex, polyester resins, and plastic products); **Toluene** — 2nd consecutive month (used heavily in making explosives, dyes, and benzoic acid, as a solvent in paint and as a gasoline additive); **Xylene** — 2nd consecutive month (used heavily in making benzoic acid, phthalic anhydride, polyester fibers, and dyes); **Zinc Oxide** — 3rd time in 5 months (used heavily as a pigmentation in paints and inks, in cosmetics, driers, quick-setting cement, and copier paper); **Coke** — A residue of coal used as fuel; **Diesel Fuel** — After being reported up in price in December for 5th consecutive month; **Gasoline** — After being reported up in price in December for 5th consecutive month; **Natural Gas** — After being reported up in price in December; **Propane; Petroleum Products** — After being reported up in price in December for 5th consecutive month; **Connectors** — 2nd consecutive month; **Printed Circuit Boards** — 2nd consecutive month; **Semiconductors** — 2nd consecutive month; **High Fructose Corn Syrup** — 3rd consecutive month; **Sugar** — 6th consecutive month.

BUYING POLICY

Leadtimes for Capital Expenditures and Production Materials declined in January, mirroring the reduced purchases in both categories. The average leadtimes for Capital Expenditures decreased to 138 days, down slightly from 139 days last month and significantly less than 149 days in November 1990. The 138 days is the lowest since November 1985 (134 days). The average leadtimes for Production Materials shortened to 45 days in January, down from 47 days in December 1990 and the same as in November 1990. However, the average leadtimes for Maintenance, Repair, and Operating (MRO) Supplies lengthened slightly to 24 days, up from 23 days in December 1990, and about the average for the past four months.

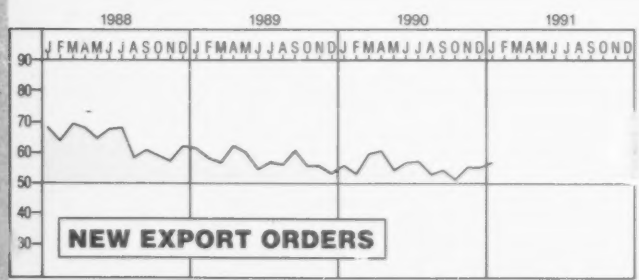


PERCENT REPORTING

Capital Expenditures	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer	1 Year + Days	Avg. Days
January	12	7	14	21	32	14	138
December	13	7	10	23	33	14	139
November	11	7	13	18	34	17	149
October	12	7	12	24	28	17	143

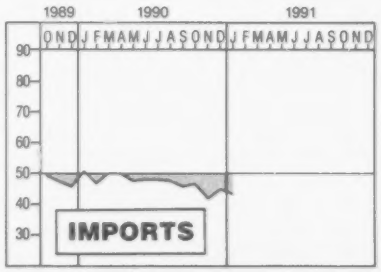
Production Materials	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer	1 Year + Days	Avg. Days
January	20	39	26	11	1	1	45
December	21	43	22	10	2	2	47
November	18	44	26	9	2	1	45
October	20	39	26	12	2	1	46

MRO Supplies	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer	1 Year + Days	Avg. Days
January	45	43	9	2	1	0	24
December	46	43	8	3	0	0	23
November	43	45	8	3	1	0	25
October	46	41	10	3	0	0	23



New Export Orders grew again in January beginning the fourth year of continuous growth. The New Export Orders Index, not yet seasonally adjusted, increased to 56.5% in January, up from 55.0% in both November and December. The percentage of members exporting was 75% in January, up slightly from 74% in December 1990.

New Export Orders	%Exporting	%Better	%Same	%Worse	Net	Index
January 1991	75	25	63	12	+13	56.5
December 1990	74	21	68	11	+10	55.0
November 1990	75	21	68	11	+10	55.0
October 1990	74	18	66	16	+ 2	51.0



Imports declined in January for the ninth consecutive month and at a slightly greater rate than in December. The Imports Index, not seasonally adjusted, dropped to 43.0%, down from 44.5% in December and notably lower than the average for all of 1990 (47.2%). However, the percentage of members importing increased to 79%, up from 76% in both November and December 1990.

Imports	%Importing	%Higher	%Same	%Lower	Net	Index
January 1991	79	9	68	23	–14	43.0
December 1990	76	8	73	19	–11	44.5
November 1990	76	6	72	22	–16	42.0
October 1990	75	10	73	17	– 7	46.5

DATA AND METHOD OF PRESENTATION

The **Report on Business** is based on data compiled from monthly replies to questions asked of purchasing executives in over 300 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification (SIC) category, based on each industry's contribution to Gross National Product (GNP). Twenty industries in 50 states are represented on the committee.

Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured [New Orders, New Export Orders, Imports, Production, Supplier Deliveries, Inventories, Employment and Prices], this report shows the percentage reporting each response, the net difference between the number of responses in the positive economic direction (higher, better and slower for Supplier Deliveries), and the negative economic direction (lower, worse and faster for Supplier Deliveries), and the diffusion index.

Responses are raw data and are never changed. The diffusion index includes the percent of positive responses plus one-half of those responding the same (considered positive). The resulting single index number is then seasonally adjusted to allow for the effects of repetitive intra-year variations resulting primarily from normal differences in weather conditions, various institutional arrangements and differences attributable to non-moveable holidays. All seasonal adjustment factors are supplied by the U.S. Department of Commerce and are subject annually to relatively minor changes when conditions warrant them. A sufficient history is not yet available for the New Export Orders and Imports Indexes to determine seasonal adjustment factors. Therefore, these two indexes are not seasonally adjusted. The Purchasing Managers' Index (PMI) is a composite index based on the seasonally adjusted diffusion indexes for five of the indicators (New Orders, Production, Supplier Deliveries, Inventories and Employment) with varying weights applied.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change. An index reading above 50% indicates that the economy is generally expanding; below 50%, that the economy is generally declining. The distance from 50% is indicative of the strength of the expansion or decline.

Responses to Buying Policy reflect the percent reporting the current months lead time, the approximate weighted number of days ahead for which commitments are made for Production Materials, Capital Expenditures and Maintenance, Repair and Operating (MRO) Supplies, expressed as hand-to-mouth (5 days), 30 days, 60 days, 90 days, 6 months (180 days), a year or more (360 days) and the weighted average number of days. These responses are raw data, never revised and not seasonally adjusted since there is no significant seasonal pattern.